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INFO RUEHBJ/AMEMBASSY BEIJING 9097  
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RUEHNAG/AMCONSUL NAGOYA 1468  
RUEHNH/AMCONSUL NAHA 6152  
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TAGS: [EAIR](#) [EIND](#) [ETRD](#) [WTRO](#) [EFIN](#) [PGOV](#) [JA](#)  
SUBJECT: JAPAN'S EFFORTS TO ASSIST ITS AILING AIRLINE  
INDUSTRY

REF: TOKYO 850

11. (SBU) Summary: The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) released its "Support Package to Strengthen the Foundation of the Airline Industry" April 10, a set of initiatives to assist Japan's struggling airline sector. The support package does not require Diet approval and is separate from the GOJ economic stimulus plan that was announced the same day. Many of the measures listed are not new and, according to MLIT officials, no special funding has been allocated for the package. The package aims to increase airline profitability, reduce costs to airlines and airports, maintain the air transport network, and respond to airlines' demand for additional credit. Executives from U.S. airlines foresee no direct benefits from the package for their respective carriers. End summary.

12. (SBU) The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) released April 10 its "Support Package to Strengthen the Foundation of the Airline Industry," a set of initiatives to assist the ailing airline industry; MLIT published the report in response to an earlier request from the Scheduled Airlines Association of Japan. (Note: The Association, which represents Japan's airlines, wrote to MLIT February 5 seeking emergency support for the airline industry. End note.) No special funding has been allocated for the package, nor does it require Diet approval, MLIT Japan Civil Aviation Bureau (JCAB) Administration Department Aviation Industries Division Policy Planning and Coordination Director Orihara told econoffs. In the general economic stimulus package the GOJ also announced April 10 (ref), the government included two further aviation-related elements: extension of Haneda Airport's "C" runway and assistance for the regional airline network. (Note: The latter is repeated in the MLIT support package. End note.)

13. (SBU) The MLIT support package envisions four major

pillars: measures to increase profitability; to reduce costs; to maintain the air transport network; and to respond to airlines' demand for credit. (Note: Post forwarded separately a translation of the package's text April 17 to EEB/TRA. End note.) Asked whether foreign airlines are eligible for MLIT support, Orihara said it would be more appropriate for such airlines to seek assistance from their own governments, as U.S. airlines did in the wake of September 11.

#### Increase Profitability

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¶4. (SBU) One element of the measures is that MLIT will allocate at Haneda Airport two domestic flights per day to Japanese carriers that previously were reserved for government and press aircraft. Japan Airlines (JAL) and All Nippon Airways (ANA) will operate one flight each. Orihara explained the newly-allocated flights cannot be used for international routes, which require reciprocal rights for the other country to be determined through bilateral negotiations. In the interest of time, and because it would be difficult or impossible to decide which country's airlines should benefit from the flights, MLIT decided to allocate these flights domestically, he continued.

¶5. (SBU) The MLIT also identifies several measures to "increase aviation demand," including a focus on bilateral aviation negotiations and on tourism promotion. The Ministry plans as well to abolish price floors (but not price

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ceilings) for first and business class fares.

#### Reduce Costs

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¶6. (SBU) The MLIT will suspend temporarily the "use-it-or-lost-it" rule on airport slots for flights to Thailand and India. It is looking as well for ways to reduce fuel costs through updated air traffic control and management methods. As noted in the MLIT support package, the U.S.-Japan Bilateral Aviation Safety Agreement (BASA), signed April 27, also reduces costs for aircraft design, certification and maintenance.

#### Air Transport Network

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¶7. (SBU) Efforts to maintain the air transport network focus on maintaining flights to regional airports. To respond to the drop in aviation demand, MLIT has lowered landing fees at domestic airports managed by the central government. (Note: Orihara showed econoffs a chart identifying landing fee reductions ranging from 10 percent for airports with frequent flights up to 50 percent for airports with fewer flights. End note.) Asked about reductions at international airports, Orihara said the GOJ cannot direct a private company such as the Narita Airport Corporation to "reduce its profit" by lowering landing fees. Landing fee reductions (e.g., support for unprofitable routes) have existed for some time, Orihara noted, and in the fiscal year ending March 2010, MLIT will consider further reductions at a rate yet to be determined.

#### Airlines Demand Credit

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¶8. (SBU) The MLIT intends to request relevant financial organizations to consider appropriate measures, in accordance with their own financial risk assessment procedures, to respond to the demand for credit. Orihara explained that in response to individual applications from Japanese airlines, which will not be released publicly, MLIT will urge relevant financial organizations to provide credit to airlines. This measure does not include any GOJ funding. All Nippon Airways (ANA) continues to insist it has not requested any government

support, but according to media reports, Japan Airlines (JAL) will consider seeking a two billion dollar loan.

#### Reaction from U.S. Airlines

19. (SBU) The most recent MLIT measures are "more of the same," one U.S. airline executive told econoffs April 27. He is disappointed, but not surprised, the landing fee reductions will not be applied generally to all airports, i.e., to include Narita. (Note: When speculation arose in February that MLIT planned to announce support measures for airlines, U.S. air carriers considered lobbying MLIT to ensure such measures did not disadvantage foreign carriers. However, industry decided not to press MLIT on this matter but rather devoted its energies to resolving negotiations to reduce landing fees at Narita. According to one U.S. airline executive, lower landing fees at Narita -- a topic included in the U.S.-Japan Regulatory Reform Initiative discussions -- would have a much more significant effect on business than the new MLIT support package. End note.)

#### Comment

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10. (SBU) The MLIT clearly wants to appear to be doing something to address the declining fortunes of the Japanese airline industry. However, its newly announced package largely rehashes existing programs. The primary beneficiary of MLIT's assistance package makeover is likely JAL, which will gain an advantage from the new "use-it-or-lose-it" rule suspension on select flights. JAL is also the only Japanese airline reportedly considering loan assistance. Doing away with price floors on first and business class fares arguably is a small step in the direction of market-based principles for Japan's civil aviation sector. However, taken as a whole, MLIT's package looks like more of the same, i.e., prop up the domestic industry by offering support measures for unprofitable routes.  
ZUMWALT